

Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 IGA-02 NSC-05 IO-13

AGR-05 /078 W

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R 261453Z AUG 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 6438

C O N F I D E N T I A L CAIRO 11484

E.O. 11652: GDS

TAGS: ECON, PFOR, EG

SUBJECT: GOE SUBSIDY PROGRAM

REF: CAIRO 11228

1. DURING MEETING WITH OMB OFFICIALS AUGUST 19, MINFIN STAFFERS OUTLINED EFFORTS THEY HAD BEEN MAKING IN AREA OF SUBSIDY REDUCTIONS IN PAST SIX MONTHS. THEY NOTED GOVERNMENT'S DESIRE TO ELIMINATE SUBSIDY PROGRAM ENTIRELY, BUT EMPHASIZED POLITICAL IMPOSSIBILITY OF SUCH A MOVE IN NEAR FUTURE. MAJOR EMPHASIS OF PRESENTATION WAS THAT GOVERNMENT HAD UNDERTAKEN BURDEN OF UNUSUALLY HIGH SUBSIDIES ONLY IN PAST TWO YEARS TO MEET RISING WORLD PRICES FOR NECESSARY COMMODITIES IN ORDER TO MAINTAIN STANDARD OF LIVING. THEY PROVIDED FOLLOWING TABLE SHOWING GOE SUBSIDY EXPENDITURES FOR YEARS 1970-1976:

1970 - 71 LE 40 MILLION

1971 - 72 LE 80 MILLION

JUNE '72 - DEC. '73 LE 180 MILLION

1974 LE 433.2 MILLION

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1975 LE 591.8 MILLION

1976 (EST.) LE 574.6 MILLION

2. FOLLOWING OCTOBER WAR, THEY EXPLAINED, GOVERNMENT COULD NOT HAVE ALLOWED INFLATION TO TAKE ITS TOLL WITHOUT DESTROYING ADMINISTRATION AND ENTIRE PEACE PROCESS TO WHICH PRESIDENT SADAT IS COMMITTED AND THEREFORE SUBSIDY BILL GREW RAPIDLY. IN RESPONSE TO PRESSURE TO ACCEPT IMF PROPOSALS FOR ECONOMIC RECOVERY, MINFIN HAD STUDIED CAREFULLY POSSIBILITY OF LE100 MILLION CUT IN 1976 SUBSIDY PACKAGE THAT HAD BEEN ANNOUNCED BY CABINET. DECISION WAS MADE TO TRY REDUCTIONS ON CERTAIN SELECTED PRODUCTS TO TEST PUBLIC REACTION. FIRST EFFORT WAS ON SWEET FOOD PRODUCT CALLED HALAWA INVOLVING REMOVAL OF LE 14 MILLION SUBSIDY. REACTION WAS IMMEDIATE AND ENTIRELY UNFAVORABLE AND CONFIRMED DOUBTS THAT FURTHER SUBSIDY CUTS COULD BE CONSIDERED PRIOR TO OCTOBER ELECTIONS. ONLY FOOD SUBSIDY ACTUALLY ELIMINATED TO DATE, THEREFORE, HAS BEEN THIS 1976 BUDGET FIGURE OF LE 14 MILLION ON HALAWA--NOT LE 100 MILLION AS REPORTED EARLIER BY VARIOUS SOURCES. AFTER ELECTION THERE WILL BE POSSIBLE FURTHER CUT ON SELECTED FOOD ITEMS BUDGETED AT LE 16 MILLION IN 1976.

3. IN 1977, GOE GOAL AGAIN WILL BE REDUCTION OF LE 100 MILLION IN SUBSIDY BILL. SUCCESS OF THIS EFFORT WILL DEPEND PRIMARILY ON PROGRESS OF WORLD COMMODITY PRICES, ESPECIALLY PRICE OF WHEAT NOT OUTRIGHT ELIMINATION OF SUBSIDIES. MINFIN STAFF STRESSED VIEW THAT SUBSIDIES ARE NOT AMMENDABLE TO SHORT-TERM REDUCTIONS BECAUSE OF RELATED POLITICAL IMPACT, AND INDICATED THAT IT IS ESSENTIALLY A DEAD ISSUE AT MOMENT AS FAR AS GOE IS CONCERNED.

4. MINFIN STAFFERS PROVED BREAKDOWN OF SUBSIDIES FOR SUPPLY COMMODITIES AND OTHER GOODS FOR 1976 AND 1976 (ABOVE), AS FOLLOWS:

	(LE MILLION)	
	1975	1976 (EST)
SUPPLY COMMODITIES	427.9	399.7
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OTHER GOODS AND SEFVICES INCLUDING TRANSPORTATION	163.9	174.9
TOTAL VALUE SUBSIDY PROGRAM	591.8	574.6

ALSO FROM MINFIN IS THIS PARTIAL LISTING OF INDIVIDUAL SUBSIDY COSTS OF SUPPLY COMMODITIES:
(LE MILLION)

	1975	1976 (EST)
WHEAT	233	183
FLOUR	26.5	33
MAIZE	31.2	30.3
FLAVA BEANS	5.1	4.5
LENTILS	16.3	11.6
SESAME HALAWA	5.1	14.0
	(REMOVED)	
GREEN BEANS	NONE	.7
COOKING OIL	74	65
FATS FOR SOAP	18	27
SLAUGHTERED ANIMALS	NONE	.3
SUGAR	22.1	21.4

5. COMMENT: MOST SURPRISING ASPECT OF MINFIN OFFICIAL'S COMMENTS ARE NOT OFT-REPEATED DIFFICULTIES IN REDUCING SUBSIDIES ON MASS CONSUMER GOODS, BUT RATHER PALTRY RESULTS ACHIEVED IN ACTUALITY THIS YEAR, PROMISES, AGREEMENTS IN PRINCIPLE AND PUBLICITY NOTWITHSTANDING. EILTS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMODITIES, SUBSIDIES
Control Number: n/a
Copy: SINGLE
Draft Date: 26 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976CAIRO11484
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760326-0612
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760818/aaaaapbo.tel
Line Count: 145
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 CAIRO 11228
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 08 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 JUN 2004 by ellisoob>; APPROVED <13 OCT 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOE SUBSIDY PROGRAM
TAGS: ECON, PFOR, EG
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006